

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 FEA-01 AGRE-00
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E.O. 11652: N/A

TAGS: EIND, ETRD, JA, EEC

SUBJECT: PRICE CARTEL AMONG SMALL STEEL MAKERS

SUMMARY: THE JAPANESE PRESS HAS RECENTLY DESCRIBED PLANS FOR A PRICE CARTEL AMONG JAPAN'S SMALL STEEL MAKERS. INTENDED TO COMPLEMENT A PRODUCTION-LIMITATION CARTEL PRESENTLY BEING ENACTED, THIS MOVE IS PART OF A MITI-ENCOURAGED RATIONALIZATION OF A SERIOUSLY DEPRESSED INDUSTRY, MANY OF WHOSE MEMBERS ARE NEAR COLLAPSE. WHILE THE PROBLEM OF BELOW-COST PRODUCTION BY THE SMALL MAKERS HAS BEEN WIDELY DISCUSSED IN GOVERNMENT AND INDUSTRY CIRCLES, PUBLIC ADMISSION OF THIS PRACTICE COULD REFLECT ON CURRENT DUMPING COMPLAINTS AGAINST JAPANESE STEEL. WE ARE PRESENTLY PREPARING A MORE DETAILED REPORT ON THESE STEEL CARTELS. END SUMMARY.

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1. ENGLISH AND JAPANESE-LANGUAGE PAPERS HERE HAVE RECENTLY CARRIED ARTICLES ON PLANS FOR A "PRICE CARTEL" AMONG 58 OF JAPAN'S SMALL (OPEN HEARTH OR ELECTRIC FURNACE-USING) STEEL MAKERS. INTENDED TO REINFORCE A RECENTLY-ADOPTED PRODUCTION CUT-BACK CARTEL, THE OBJECT OF THIS NEW CARTEL IS TO BRING CURRENTLY DEPRESSED PRICE LEVELS OF SMALL MILL PRODUCTS BACK ABOVE COSTS BY

THE END OF THE YEAR. THE ARTICLES DESCRIBE IN SOME DETAIL THE SMALL MAKERS' PRESENT PREDICAMENT: OVER-CAPACITY AND OVER PRODUCTION RESULTING FROM BUILD-UP OF THE INDUSTRY DURING THE EARLY 1970'S HAVE LOWERED THE CURRENT MARKET (I.E. TRADING COMPANY PURCHASE) PRICE FOR THE SHAPES AND BARS THAT THESE SMALL MAKERS SPECIALIZE IN TO AN AVERAGE OF YEN 50,000/MT--SOME YEN 10,000 BELOW PRODUCTION COSTS. THROUGH THIS PLANNED PRICE CARTEL, THE SMALL MAKERS HOPE TO BRING THE MARKET PRICE OF THEIR PRODUCTS UP TO ABOUT YEN 61,500/MT.

2. FOLLOWING NEGOTIATIONS WITH RELATED TRADING COMPANIES, THE SMALL MAKERS INTEND TO APPLY TO JAPAN'S FAIR TRADE COMMISSION FOR FORMAL PERMISSION TO FORM A PRICE CARTEL, WHICH THEY EXPECT TO OBTAIN. THE SMALL MAKERS ALSO PLAN TO FORM AN "INDUSTRIAL ORGANIZATION" UNDER JAPAN'S SMALLER ENTERPRISE ORGANIZATION LAW, THROUGH WHICH THEY CAN CARRY OUT THESE CARTEL ADJUSTMENTS UNDER MITI SUPERVISION.

3. COMMENT: JAPAN'S SMALLER STEEL MAKERS ARE A MAJOR FOCUS OF MITI'S CURRENT RATIONALIZATION PROGRAM FOR "STRUCTURALLY DEPRESSED" INDUSTRIES. ONE OF THESE FIRMS EXPLAINED ITS BELOW COST-PRODUCTION PROBLEM TO US IN THIS WAY: MOST SMALL MAKERS RELY ON TRADING COMPANIES FOR FINANCING. LOANS FROM THE TRADING HOUSES ARE LIMITED OFFICIAL USE

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TURNED BACK TO THEM TO OBTAIN RAW MATERIALS; THE SAME TRADING COMPANIES THEN PURCHASE THE MILLS' PRODUCTS FOR DISTRIBUTION. THE TRADING COMPANIES' PURCHASE PRICES FLUCTUATE WITH THE MARKET; THUS LOSSES FROM LOWER PRICES DURING DEPRESSED MARKET CONDITIONS ARE BORNE PRIMARILY BY THE STEEL MAKERS. HOWEVER, THE CHARACTERISTICALLY HIGH DEBT/EQUITY RATIO OF THESE SMALL JAPANESE STEEL PRODUCERS MAKES IT IMPOSSIBLE FOR ANY SINGLE FIRM TO UNILATERALLY CARRY OUT A SUBSTANTIAL CUT-BACK ON ITS PRODUCTION. DURING DEPRESSED CONDITIONS THE MILLS MUST KEEP RUNNING--EVEN AT A LOSS--TO SURVIVE. THIS IS PARTICULARLY SIGNIFICANT WHEN CONSIDERING THE MAJOR ROLE PLAYED BY THE SMALL MAKERS IN LAST YEAR'S SHARP INCREASE OF JAPANESE STEEL EXPORTS. THESE PRODUCTION AND PRICE CARTELS ARE CLEARLY A MITI-APPROVED (AND PROBABLY MANAGED) SOLUTION TO WHAT IS NOW A CHRONICALLY DEPRESSED INDUSTRY, MANY OF WHOSE MEMBERS ARE NEAR COLLAPSE.

4. THE ISSUE OF "BELOW-COST" PRODUCTION BY THE SMALL STEEL MAKERS HAS NATURALLY BEEN A SUBJECT OF DISCUSSION IN INDUSTRY AND GOVERNMENT CIRCLES FOR SOME TIME.

HOWEVER, WE FEEL THAT THE INCREASED PUBLICITY PROVIDED BY
THESE PRESS REPORTS COULD REFLECT ON CURRENT DUMPING
COMPLAINTS AGAINST JAPANESE STEEL EXPORTS--ADMISSION
OF PRODUCTION BELOW COST COULD BE INTERPRETED TO IMPLY
EXPORTS BELOW COST.

5. WE ARE PRESENTLY PREPARING A MORE DETAILED UNCLASSIFIED REPORT
ON THE CONTENT OF THE SMALL STEEL MAKERS' CARTEL
PROGRAM AND WOULD APPRECIATE ANY INFORMATION THAT THE
DEPARTMENT MAY HAVE ON REACTIONS TO THIS PLAN.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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